



## IFRS Interpretations Committee to issue tentative agenda decision on IFRS 17 profit recognition

### What you need to know

- On 15 March 2022, the IFRS Interpretations Committee (the Committee) discussed a question regarding the interpretation of IFRS 17 *Insurance Contracts* (IFRS 17) about the service provided by a life contingent annuity and how to recognise that service through the release of the Contractual Service Margin (CSM).
- The Committee agreed to publish a tentative agenda decision (TAD) for public comment that sets out the applicable requirements in IFRS 17 and explains how an entity determines the quantity of the benefits provided under the group of annuity contracts described in the submission.
- After considering comments received, the Committee will decide, at a future meeting, whether to confirm its decision and publish a final agenda decision

(subject to the International Accounting Standards Board (the IASB or Board) not objecting).

- If finalised, as currently drafted, this agenda decision will mean that the "sum assured" method for CSM release (described under Approach B below) is not a valid interpretation of IFRS 17 principles. The method the Committee considered in line with the Standard is a release of the CSM on the basis of the claim amount payable in the period (described under Approach A below).
- The Committee agreed not to add a standard-setting project to the workplan, as it believes IFRS 17 already provides an adequate basis for determining the quantity of benefits provided.

## Overview

At its March 2022 meeting, the Committee considered a submission about how to recognise unearned profit as revenue under IFRS 17 by assessing the services an entity provides to policyholders of annuity contracts. It will publish a tentative agenda decision (TAD) for public comment that explains how an entity determines the quantity of the benefits provided under the group of contracts described in the submission. The Committee considers that a release of CSM on the basis of the claim amount payable in the period (Approach A below) is in line with the Standard. If finalised, as currently drafted, the agenda decision will mean that the “sum assured” method for CSM release (Approach below) is not a valid interpretation of IFRS 17 principles.

## Background

The Committee is the interpretative body of the IASB. It works with the Board in supporting application of IFRS standards and responds to questions about the application of standards.

In February 2022, the Committee had an education session prior to the discussion of the first submission related to IFRS 17 at its March meeting. At the February meeting, the IFRS Foundation staff (the staff) provided a brief overview of the key components and principles of IFRS 17. This focused on the recognition of CSM in profit or loss and the requirements that the CSM must be recognised in profit or loss over the coverage period in a pattern that reflects the provision of insurance coverage as required by the contract. The staff paper prepared for the [February meeting](#) also included an appendix with examples of CSM recognition that were considered by the [IFRS 17 TRG May 2018 meeting](#) – including example 12 for life contingent annuities.

## The story so far

The IASB issued IFRS 17 in May 2017, it then issued targeted amendments to IFRS 17 in June 2020, following the Exposure Draft (ED) on proposed *Amendments to IFRS 17* (published in June 2019 and subsequent re-deliberations based on feedback received on the ED from stakeholders). Our publication, [Applying IFRS 17: A closer look at the new insurance contracts standard \(June 2021\)](#), provides further details on the requirements. The IASB issued a narrow scope amendment to *IFRS 17 Initial Application of IFRS 17 and IFRS 9-Comparative Information in December 2021*.

The Committee considered its first submission related to IFRS 17 in the March 2022 meeting.

## The submission

The submission, in Appendix B to the staff paper for the March meeting, seeks the views of the Committee regarding the interpretation of IFRS 17 in relation to the service provided by a

life contingent annuity and the application of the requirements to recognise that service through the release of the CSM.

The submission presents the fact pattern of an immediate annuity contract, in a group of contracts, for which the policyholder pays a premium upfront and has no right to cancel. The only service is insurance coverage for survival. The policyholder is entitled to a regular annual benefit for as long as he or she survives.

The paper presents two possible interpretations that result from different views on the insurance coverage service provided over the lifetime of the contract and lead to differences in the method to release of the CSM and revenue recognition. The submission asked whether both would meet the principles of IFRS 17. The key analysis is around determination of the coverage units and the quantity of benefits provided under each contract in the group.

### Approach A

The claim amount payable for the period.

- ▶ The submission refers to this as the “payments method” which considers that the quantity of services provided and CSM allocation in a period is determined based on the periodic benefits payable in each period that services are provided.
- ▶ Periodic benefit payable represents the quantity of benefits for each discrete insured event, i.e., survival to point of payment.

### Approach B

The balance of all claim amounts expected to be payable over the duration of the contract.

- ▶ The submission refers to this as the “sum assured” method and it was developed in certain jurisdictions due to concern that revenue recognition under Approach A may not reflect the commercial model for annuity contracts.
- ▶ Approach B considers service provided in a period to include the service of standing ready to pay the policyholder throughout the coverage period.
- ▶ The service is viewed as including both the annuity payment in the period as well as access to receiving a continued stream of future payments for as long as the policyholder survives. The quantity of services provided and CSM allocation in a period is determined based on the claim amount payable in the current period plus the present value of all claim amounts expected to be payable in future periods (i.e., the present value of all future benefits – the “sum assured” on an accumulated basis for all remaining years, rather than purely focusing on the claim amount payable for the period).

In the illustrative example in [the staff paper for the meeting \(and the example included in the submission paper\)](#), Approach B has a significant acceleration of the CSM release compared to Approach A.

The staff believes that Approach A meets the requirements of the Standard, and that Approach B does not. This is because the present value of the balance of all claim amounts expected to be payable over the duration of the contract does not meet the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period.

The staff paper prepared for the meeting considered several arguments put forward in the submission in support of Approach B. However, the analysis rejected these arguments, concluding that Approach B would not be in line with paragraph B119 as it would assign a quantity of benefits to periods in which the entity has no obligation to investigate and pay valid claims, although it has accepted insurance risk, and would misrepresent the quantity of benefits in a period by considering claims amounts that the policyholder can access and benefit from in future periods.

Refer to the table below (per paragraph 41 of the staff paper) for a summary of the staff analysis:

Ref	Submission arguments for Approach B. The quantity of benefits of insurance coverage provided reflect	Summary of reasons why the staff does not consider this to be a valid argument that meets the principles in paragraph B119 to reflect the insurance coverage provided
A	That survival in a period also entitles the policyholder to continued access to insurance coverage in future periods	<ul style="list-style-type: none"> <li>Para B119(b) requires an entity to identify the portion of benefits expected to be provided in current vs. future periods.</li> <li>Survival in the current period does not provide benefits in that period related to the continued right to insurance coverage in future periods.</li> <li>The right to insurance coverage in future periods is contingent on survival in each period, and the policyholder only benefits from that right (to make a valid claim in future periods), if and when they survive in those future periods.</li> </ul>
B	The service of accepting insurance risk (which reduces over the coverage period)	<ul style="list-style-type: none"> <li>Transfer of insurance risk (uncertainty) to the entity is a benefit to the policyholder, for which the entity charges compensation.</li> <li>However, this is to be reflected in the risk adjustment for non-financial risk.</li> <li>The CSM is a margin in addition to the amount an entity charges for bearing the risk of uncertainty and it should not reflect the pattern of release from risk in the pattern of the recognition of the CSM.</li> </ul>
C	The pricing of annuity contracts. (The declining amount of CSM recognised in Approach B aligns with a younger policyholder being willing to pay a higher price for a life-contingent annuity than an older one, due to the greater uncertainty about how long they will survive).	<ul style="list-style-type: none"> <li>The greater uncertainty for a younger policyholder should be reflected in the risk adjustment for non-financial risk. The release from risk, recognised in profit or loss, will reflect the higher release of uncertainty in earlier years compared to later years.</li> <li>The fact that a younger policyholder expects to receive benefits for a longer period does not mean it receives more benefit in earlier years than later ones.</li> </ul>
D	The benefit lost if the policyholder were to die. (This should be considered when determining quantity of benefits provided in the current period because of surviving.)	<ul style="list-style-type: none"> <li>The benefit lost in the event of death is not a measure of benefits attributable to just one period of insurance coverage.</li> <li>It represents the quantity of benefits of the insurance coverage for the whole remaining expected coverage period.</li> </ul>
E	The margin the entity charges for investment management expenses. (The declining quantity of benefits reflects that there will be a larger outstanding balance of expected future payments in earlier years)	<ul style="list-style-type: none"> <li>The entity's cost of investment activity is irrelevant in determining the quantity of benefits in this fact pattern because the only insurance contract service provided is insurance coverage.</li> <li>If the entity has higher costs for managing its investments in earlier periods (in order to pay the periodic annual benefit to the policyholder while he or she survives), this does not mean the insurance coverage benefits to the policyholder are greater in those early years. The policyholder receives the same amount in each period for survival as specified in the contract.</li> </ul>
F	The view that the insured event in an annuity contract is one continuous event rather than a series of discrete insured events (per Approach A). (This considers that the benefits to the policyholder of continued access declines over time as uncertainty about the length of survival also declines.)	<ul style="list-style-type: none"> <li>This distinction does not change the nature of insurance coverage as a performance obligation satisfied over time (as explained in BC36).</li> <li>At the end of year 1, the measure of progress should reflect insurance coverage provided in the period, with the liability for remaining coverage (LFRC) reflecting the insurance coverage expected to be provided in the future.</li> <li>This is the case, regardless of whether insurance coverage is seen as a series of distinct insurance contract services provided over time or a single performance obligation satisfied over time.</li> </ul>

The analysis of the staff focuses on immediate annuity contracts but it would also extend to deferred annuity contracts, where Approach A would result in an entity recognising the contractual service margin in profit or loss for insurance coverage provided only once the policyholder is entitled to receive the regular annual benefit (i.e., the payment phase). That is, an entity would recognise no amount of the contractual service margin in profit or loss for insurance coverage before the policyholder is entitled to receive the regular annual payments (i.e., the deferral phase), unless another insurance contract service (i.e., investment-return or investment-related service) is provided in the deferral period, for which the CSM could be recognised. (The simplified example considered in the paper does not consider such other insurance contract service).

## Observations from the meeting

The majority of Committee members agreed with the analysis in the staff paper and its conclusions. Some noted that they think Approach B would include, in a particular year benefits expected to be provided in future years, and these future benefits are given equal weighting to amounts that can be claimed in the current year. Another committee member noted that B119 is very brief, and had wondered whether it was sufficient to preclude Approach B. This member concluded that he could only accept Approach A because, in his opinion, the revenue model in IFRS focuses on the benefit which the policyholders have the right to claim in each year that they survive.

One Committee member disagreed. This Committee member thinks Approach A might be appropriate for some simple annuity products, but that Approach B is more appropriate and in line with how these products are priced.

Twelve Committee members agreed with the staff analysis of the application of IFRS 17 requirements as outlined in the paper and agreed not to add a standard setting project to the work plan. One voted against the staff analysis.

The dissenting Committee member questioned whether the TAD was an explanation of the Standard or an interpretation and, therefore, whether it was within the scope of a Committee agenda decision. This member also noted that the proposed agenda decision will disrupt implementation for some insurers and might have unintended consequences.

The Committee chair noted that the TAD will be subject to public consultation and consideration by the IASB.

The committee considered several amendments to the proposed wording of the TAD – including the possibility of including a numerical example to help readers understand the agenda decision if they have not read the staff paper prepared for this meeting.

## How we see it

- As illustrated in the material for this meeting, which of these two approaches is applied can have a significant impact on the release pattern of the contractual service margin for annuity products. Some entities will be disappointed by the rejection of Approach B because they believe this view results in a more appropriate reflection of the economics and profitability pattern of these products. The issue may have an even bigger impact on deferred annuities.
- There will be opportunity to comment on the tentative agenda decision. The finalised agenda decision is likely to be issued just months before initial application of IFRS 17. Entities that had planned to adopt Approach B will therefore, need to consider the impact on implementation plans, given this timing.
- As noted by the Committee chair, the Committee's focus is on interpreting the words in the Standard and not on whether a TAD might cause disruption. There is a need for clarity and consistent application of the Standard, but the potential implications for disruption to implementations already underway, at such a late stage, should not be forgotten.
- The staff did not discuss in detail the impact of an investment-return or investment-related service, mentioning only a simplified example of a deferred annuity in the paper that adds a deferral period but no further insurance contract services. In practice, where contracts include an investment-return or investment-related service, entities will need to work out the coverage units for the release of the contractual service margin taking into account both insurance coverage service and investment-return or investment-related service.

## Next steps

The Committee intends to publish its tentative agenda decision for public comment. After considering comments received, at a future meeting the Interpretations Committee will decide whether to confirm its decision and publish a final agenda decision (subject to no objections from the IASB).

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